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Colombia

Coffee Annual

Coffee Production and Exports Back on Track

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Report Highlights:

In spite of extremely wet weather conditions over the past seven months, causing the spread of coffee rust, Colombian coffee production and exports are up almost 30% during this time. The recovery can be in part attributed to the fact that 40% of total coffee trees planted are now rust-resistant varieties. In total, the government, together with the Coffee Federation, committed \$160 million to a recovery plan providing funds through 2015 to support the coffee sector. In MY 2010/11, Colombian coffee production is expected to rebound to 9.5 million (60 kg) bags after two years of decline due to rust, broca (berry borer), and bad weather. Post expects Colombian coffee production to increase another 10% to 10.5 million 60 kg bags in MY 2011/12, with exports increasing to 9.7 million 60 kg bags.

Executive Summary:

Colombian coffee production is expected to recover to 9.5 million 60 Kg bags in MY 2010/11 (October through September), an increase of 1.4 million 60 kg bags from the previous year. Production is forecast to increase further in MY 2011/12 to 10.5 million 60kg bags due to joint coffee federation and government programs to control coffee rust. A government and coffee federation plan is now in place to increase support to coffee growers and encourage coffee tree renovation with varieties resistant to rust that are planted with higher density. One-third of the total Colombian coffee area is planted with rust-resistant varieties, so the impact of coffee rust has been gradually decreasing.

Colombian coffee exports are rising with production. Strong international demand for high-quality coffee like the Arabica produced in Colombia, accompanied by high prices, is expected to stimulate an increase in coffee exports. Colombian coffee exports are expected to increase to 9.2 million 60 kg bags in MY 2010/11 and increase further to 9.8 million 60 kg bags in MY 2011/12.

In total, the government committed \$160 million to a recovery plan to provide funds through 2015 to support the coffee sector. The Colombian government adapted its support program and targets to increase the use of its Rural Funding Incentive (RIC) subsidy to make it more efficient for assisting farmers to combat rust. The renovation program has become more focused on assisting farmers with costs of renovating trees to rust-resistant varieties.

In addition to the standard government subsidy programs, a new \$30 million package for assistance was created with government flood relief funds. Under this program, coffee growers in flood-affected areas (221,000 growers on 190,000 hectares) will receive \$150 per hectare to spend on fertilizers and fungicides.

Commodities:

Coffee, Green

Production:

Colombian coffee production is expected to increase by 1.4 million 60 kg bags in MY 2010/11, an increase of 17% over the previous marketing year. During the January-April period, Colombian Coffee production increased 28%. The forecast for MY 2011/12 is for a further increase in production to 10.5 million 60 kg bags. This forecast will be closer to Colombia's ten-year production average of 10.9 million 60 kg bags.

The expected recovery of Colombian Coffee production is explained by the combination of several factors: increasing support from the government and the coffee federation, a return to more normal weather conditions, increased international coffee prices, and an increasing amount of renovated trees. In total, the

government committed \$160 million to a recovery plan to provide funds through 2015 to support the coffee sector through the Coffee Federation. As a result, the Federation has launched several programs to cope with the coffee rust providing resources and technical assistance.

Since 2008, the Colombian coffee area has been affected by extreme weather conditions. In the beginning of 2010, an extreme drought exposed coffee trees to broca (coffee cherry borer) infestation. In the second half of the year, coffee areas were hit by extreme rainfall that exposed coffee trees to rust. This year, coffee rust is affecting 30% of Colombian coffee varieties that are not resistant. Up to 60% of total coffee trees in Colombia are still non-resistant, in most cases because they have never been renovated. According to the Federation, the fungus has caused \$250 million in damage and caused the losses of approximately 1 million 60 kilo bags. The situation drove the Coffee growers to launch an aggressive program to combat rust by encouraging coffee growers to use a more preventative approach to fungicide application and to subsidize the cost of renovation by offering incentives to those farmers who participate in the program and replace their trees. Approximately 300,000 hectares have been renovated over the past five years. In 2010, 85,000 hectares were renovated and around 85 percent of these are resistant to coffee rust varieties. The recovery of the sector rests primarily on the success of this program, and so far the results are impressive. The goal of the federation is to have 98% of the total coffee area in Colombia renovated by 2020.

Climate change plays a big role in Colombia's coffee numbers, and according to Colombian environment ministry, increasing temperatures are affecting coffee production. Diseases are affecting coffee trees at lower elevations as average high temperatures increase. However, coffee rust has also appeared at higher elevations, so migration to higher areas may not be the answer.

This year's coffee production has undergone positive changes at the monthly level, and the numbers have bounced back considerably. During the first seven months of the 2010/11 marketing year, production reached 5.9 million 60 kg bags, 30% higher than the same period a year before. According to post sources, fertilizer and other input sales are up as much as 30%, which has had a big impact on the control of rust and overall yields.

Trade:

In MY 2010/11, Colombian coffee exports are expected to increase 17% to 9.2 million 60 kg bags from the previous year. Post expects Colombian coffee exports to further increase to 9.8 million 60 kg bags in MY 2011/12 as the Federation works with government funds to support the sector. Firm international coffee prices and demand will also support production expansion and help to maintain the total planted area. Quality is also expected to improve as varieties progress and disseminate.

Colombian exports of green coffee during the period Oct 2010 and Feb 2011 increased by 33% in to 4.1 million 60 kg bags compared with the previous year. This trend suggests the continual recovery of Colombian production.

The United States continues to be the main destination for Colombian coffee exports by far. In MY 2010, the US market purchased 45% of total Colombian exports, followed by the EU with 34% and Japan with 15%. Colombian coffee exports to the US increased to 59% in the first 5 months of MY 2010/11.

Colombia continues its effort to add value to its coffee and increase exports of value-added coffee products. Value added coffee products, and in particular specialty coffees, now make up 32 percent of Colombia's total exports. Colombian specialty coffee has also been growing - certified and organic coffees and coffees of origin receive premiums which result in higher overall prices than traditional coffee. Colombian coffee growers produce coffee under numerous international programs that provide fair trade and organic certifications such as USDA Organic, UTZ Certified, 4C, and Rainforest Alliance. Coffees from specific geographic origins such as Huila and Nariño are gaining recognition and popularity. Colombian specialty coffees frequently win high rankings in international coffee contests. Altogether, value added coffee and specialty coffee represent approximately 30 percent of total Colombian coffee exports (freeze-dried coffee makes up another 6 percent of total exports).

Prices for Colombian coffee on the international market have risen dramatically in 2010 and 2011. Colombian coffee prices averaged \$2.09 per pound in 2010, 27% beyond the previous year's average. The average coffee price for April 2011 reached \$2.94; an increase of nearly \$1 over the same period last year, and during the week of May 8 reached a record \$3.32. In spite of the fact that the peso strengthened against the dollar by 8%, the actual price transferred to coffee growers increased by 41% since international prices were so strong.

Stocks:

Although there is no official Colombian government policy for holding coffee stocks, the calculated inventory of coffee at the end of MY 2010/11 is expected to reach 234,000 60 kg bags, 50,000 60 kg bags less than the previous year. This is a result of the firm international demand for high quality coffee and the increase in Colombian coffee supply that meets the Federation's export standards. In MY 2011/12, another decrease in stocks of 34,000 60 kg bags is expected due to the expectation of increasing exports that goes along with increasing coffee production.

Policy:

There are 553,000 coffee farmers in Colombia, of which 95% produce on less than 5 hectares. Small farmers with less than 5 hectares of land produce 69% percent of Colombia's total production. The fact that the majority are small farmers makes coffee highly sensitive for the government in terms of employment and social welfare. The current government subsidy program for coffee was recently modified to improve its benefits and extend weather-related assistance, and a budget was marked out until 2015.

The new government coffee program established both short and long term goals. In the short term, the program is focused on controlling coffee rust and in the longer term, aims to help restore coffee production back to 15 million 60 kg bags with coffee varieties that are rust-resistant. The renovation program is now entirely focused on implementing rust-resistant varieties. Another long-range policy goal is to increase the

use of the Rural Funding Incentive (ICR) benefit and to make it more targeted to rust control. The RIC benefit was extended to larger coffee farms that range from 1.5 hectares to 5 hectares on size and was also linked to coffee tree renovation. Another change regards small farmers, making it possible for the subsidy for farmers with less than one hectare of land to receive assistance not only through discounts on loans but also on inputs. The government is putting this assistance in place now to deal with the coffee rust situation that has been exacerbated by recent flooding and excessive rains in Colombia.

In addition, the Federation established a 5.5 million dollar program to address the incidence of coffee rust disease on coffee farms smaller than 10 hectares. This program will provide supplies for performing renovation such as seed, bags, fertilizers and transplants. For areas that can be recovered without actual renovation, the program will provide fertilizers and fungicides.

As previously mentioned, due to the damages caused by the extreme rainfall to the agricultural sector, the Colombian government launched an emergency program to provide support to all the areas and producers affected. Under this program, coffee growers will receive the support of \$ 150 per hectare by means of fertilizers, pesticides, and fungicides. Subsidies that will continue from the Colombian government include the hedging support program, the minimum price extended to farmers, and the guaranteed purchase program.

Author Defined: